

GAS ROYALTY OPERATIONS INFORMATION BULLETIN October 2013

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PLEASE ENSURE YOUR PRODUCTION ACCOUNTANTS RECEIVE A COPY OF THIS DOCUMENT

PRICING, ROYALTY RATES AND TRANSPORTATION INFORMATION

- A. For Pricing, Royalty Rates and Transportation Information for August 2013, refer to the Information Letter.

The monthly default sulphur price for August 2013 is \$31.63.

Annual Sulphur Default Price

2008	2009	2010	2011	2012
\$297.38	\$5.83	\$42.19	\$109.98	\$98.02

B. NOTICES

Royalty Liable Gas Used for Fuel (PURREC/PURDISP)

The Department is reviewing volumetric dispositions of gas, reported on PETRINEX (formerly the Petroleum Registry of Alberta (PRA)), from batteries, gathering systems or gas plants to batteries, gathering systems or gas plants that is sold or deemed sold for fuel. This review is for production year 2009 onward and is to be completed in 2014. The objective of the review is to ensure that all gas sold and used for fuel is accurately reported on the PETRINEX to facilitate Crown royalty calculation. Where reporting errors are found royalty clients will be notified to submit amendments.

Effective June 4, 2009, when there is a sale of gas or transfer of ownership within the royalty network, the selling facility is required to report PURDISP, which would then auto populate the PURREC for the purchaser (receiving facility). This enhances the controls to prevent fuel sale gas volumes from being incorrectly reported in PETRINEX. This new reporting method also applies to all prior period amendments completed after June 4, 2009. A purchase disposition (PURDISP) is a volume of product that has been sold by a facility to another facility within the royalty network. A PURDISP of gas is subject to Crown royalty charges.

For example: effective June 4, 2009, if a gas plant (GP) sells gas for fuel to a battery (BT) each month, the reporting is as follows:

1. The GP Operator must report a PURDISP.
2. This will auto populate a PURREC at the BT.
3. The GP operator must then file a SAF/OAF for the PURDISP volumes.

All parties should take steps to ensure that in network sales or transfers of gas are correctly reported in the PRA.

If you have any questions, please contact Salim Sumar at 780-422-9255.

Changes to Natural Gas Liquids Reference Prices and Allowances

New Business Processes

The Department of Energy has concluded a review of business processes related to the calculation of Natural Gas Liquids Reference Prices and Allowances. These prices and allowances are used in the calculation of royalties for propane (C3), butanes (C4), pentanes plus (C5+) and field condensate (C5+).

Following extensive consultation with representatives of producer associations, new business processes will be implemented effective with July 2014 production. The current system which calculates three Edmonton based reference prices, three types of transportation allowances for each of four regions and a fractionation allowance, will be replaced by two provincial reference prices calculated for each of propane, butanes and pentanes plus. One is for specification grade product and the other is for product contained in a mix. Each reference price will be a provincial average of field purchase prices reported by NGL buyers and no further deductions are required to these prices. The pentanes plus spec product reference price will be used to value field condensate, similar to the current process.

The new process for determining NGL reference prices will be less complex and more transparent without affecting overall Crown royalties. Refer to [IL 2013-35](#) for more information.

The detailed business rules for the new NGL reference prices are attached as Appendix 1.

NGL Buyer Identification

The new NGL field based provincial reference prices are going to be calculated using information submitted by all NGL buyers. In this regard, we are seeking your assistance with identifying NGL buyers that purchase product at Alberta field locations. Please review the attached list of NGL buyers (Appendix 2) that are already known to us and send us an email with the names and contacts of NGL buyers that are not on the list.

We would like to contact the new companies as soon as possible to enable them to prepare for the new reporting requirements.

For further information or to submit names and contacts of NGL buyers please contact:

Bill Zanewick
Senior Advisor
Petroleum Marketing & Valuation and Site Services
Resource Revenue & Operations
AMEC Place
300, 801 – 6th Avenue S.W.
Calgary, AB T2P 3W2
Phone: (403) 297-5465
Email: Bill.Zanewick@gov.ab.ca

C. MONTHLY INFORMATION

August 2013 Royalty Due November 30

- **Royalty clients are to remit the total amount payable shown on the November 2013 Statement of Account by November 30, 2013.** If the amount payable includes accrued current period interest, the interest has only been accrued to the statement issue date. Clients must also include the additional interest that has accrued from the statement issue date to the date of payment, using the per diem amount provided.
- **The November 2013 Statement of Account shows your amount payable as of the Statement issue date. It includes any outstanding balances from your previous statement, your August 2013 invoice amount and any applicable current period interest charges. It also identifies refunds resulting from overpayments.**
- **Current period interest will not be charged on current invoice charges for the production month of August 2013 if it is paid in full by November 30, 2013.**
- **Current period interest will accrue on any overdue charges commencing the first day after the due-date until it is paid in full.**

Note: If the due date falls on a non-business day, the next business day will apply as the due date except for the month of March due to the Government of Alberta's fiscal year end. In this situation, the due date will apply previous to the non-business day as the due date.

- Cheques are payable to the Government of Alberta.

September 2013 VA4 Due November 15

The VA4 forms for the production month of September 2013 are due in the department offices by November 15, 2013.

Note: If the due date falls on a non-business day, the next business day will apply as the due date for VA4 forms.

Petrinex Deadline Submissions

The Petrinex deadline for SAF, OAF, and Volumetric submissions are posted on the [Petrinex](#) website "Reporting Calendars" under Calendars. *Changes to this calendar will be posted on the Petrinex website home page in "Broadcast Messages."*

Interest Rate October 2013

Alberta Energy's interest rate for October is 4.00%.

July Provisional Assessment Charge

The summary of Provisional Assessment Charges for all production periods in the July 2013 billing period was:

First Time Provisional Assessment	Reversals of Provisional Assessments (Net)	Net Provisional Assessment
\$7,336,638.55	(\$3,268,733.89)	\$4,067,904.66

July Penalty Charges

The penalty table below shows at the form level, the total penalty charges and reversals, for the July 2013 billing period.

Forms	Penalty Charges	Penalty Reversals	Net Penalty Charges for 2013/07
AC2	\$108,900	(\$36,300)	\$72,600
AC4	\$0	\$0	\$0
AC5	\$800	\$0	\$800
NGL1	\$0	\$0	\$0
VA2	\$0	\$0	\$0
VA3	\$0	\$0	\$0
VA4	\$0	(\$300)	(\$300)
Total	\$109,700	(\$36,600)	\$73,100

Production Allocation Discrepancy (PAD) Potential Royalty Impact

As of the July 2013 billing period, the potential royalty dollar impact is estimated as \$14.2 million, distributed as follows by production year:

2010	2011	2013
\$6.1 million	\$4.6 million	\$3.5 million

Note: These values are not intended to show that Crown royalty has been understated but do illustrate the consequences of incorrect reporting.

Well Event Measured Depth Determination Letter

The department has issued a “Well Event Measured Depth Determination Letter” under the Report Package DOE – Gas to facility operators via Petrinex on October 1 and 15, 2013. This letter shows the confirmed Measured Depth (MD) of each active well event that will be used to calculate the Depth Factor (DF) of the quantity component rate under the Alberta Royalty Framework formula. A well event that is not listed on the letter and does not have a confirmed MD will receive a DF of 1. When the changes to the MD are confirmed by the department, a letter is issued to a facility operator who reports changes through Petrinex to well event attributes affecting MD. All changes to the MD are applied on a go forward basis only. Facility operators are advised to submit well event attribute changes by the last day of the calendar month in order for timely determination of MD.

NGDDP Confidential Wells

Wells designated as “confidential” will be reviewed prior to the removal of the “confidential” status, if the directional surveys and completion reports are provided to the department. Please send directional surveys and completion reports to GasRoyaltyPrograms@gov.ab.ca

If you have any questions, please contact Joyce Chen at 780-427-1550.

Gas Royalty Operations Support

Upon request, Gas Royalty Operations staff will be available to meet with clients who need assistance with royalty reporting. Royalty clients requiring assistance are encouraged to contact your respective Gas Royalty Volumetric and Cost Reporting portfolio representative, as identified in Section F of this bulletin, to arrange a meeting.

D. INFRASTRUCTURE DATA CHANGES

Client ID Listing

The BA Identifiers Report is a directory of Business Associate (BA) names, codes, status (e.g. struck, active, amalgamated, etc.), status effective dates, and effective August 2004, includes Working Interest Owner (WIO) role start/end dates.

This report is also published daily on the Petrinex website.

The Department reminds Business Associates to review their WIO role to ensure that the start and end dates are reflected correctly. If the BA does not have an active WIO role, the operators cannot allocate volumes to the BA for the relevant production periods through the SAF/OAF allocations.

- If a BA has a WIO role, then that BA can receive SAF/OAF allocations from the WIO role start date forward.

- If a BA has a WIO role with an end date, then they can only receive SAF/OAF allocations from the WIO role start date until the end date. Any SAF/OAF allocations after the end date will be rejected.
- If a BA does not have a WIO role start date, then that BA cannot receive SAF/OAF allocations.

Please contact Client Registry at 780-422-1395, if you have any questions regarding the information supplied on this listing.

Client Status Changes

Clients must ensure that all royalty documents are completed using only valid client names and IDs. It is critical that royalty clients use current legal client names and their appropriate IDs on all documents to ensure accurate royalty calculation and to prevent provisional assessment and penalties. Rejects will occur when invalid IDs are used.

If you require information regarding client names or IDs, please contact Client Registry at 780-422-1395.

Nova Tolls - Multiple Gas Reference Prices

Royalty information related to the implementation of the Factor Model negotiated with industry for determining Multiple Gas Valuation Prices is provided on the Natural Gas website's Royalty Related Information page under [Facility Royalty Trigger Factors and Meter Station Ties](#).

E. REMINDERS

Changes to the Crown Royalty Default Report

Enhancements have been made to the default report and will be reflected in the September 2013 billing period invoice. The default report is being changed to a cumulative report. Prior to the implementation of this change, the report only displayed defaults that occurred in the billing period that it was issued. Effective the September 2013 billing period issued in November 2013 calendar month, this report will be cumulative and will report all defaults for all open production years each month. Therefore, if you receive a default in the September billing period invoice and it remains unresolved, it will appear in the report issued in the October billing period invoice and will continue to appear until it is resolved or the year becomes statute barred. In addition, the comma separated value format for the default report will include an additional column specifying the dollar amount of the detail line for which a default occurred.

If you have any questions regarding the enhancements to the default report, please contact your respective Volumetric & Cost Reporting portfolio representative as identified in [Section F](#) of this bulletin.

ABWG99999 PURDISP to IF

A Purchase Disposition (PURDISP) is a DoE volumetric activity used to identify the sale of lease fuel gas within the royalty network (in-net) which is consumed entirely for fuel and is royalty liable.

Effective November 6, 2013, Petrinex will disallow the activity PURDISP when the reporting facility type is ABBT, ABGS or ABGP and the From/To type is IF. This will be effective production period 2009/01 on a go-forward basis. New submissions and amendments will have to be filed as a Disposition (DISP).

Royalty clients may submit an application to Gas Royalty Operations to review the eligibility of allocation of these royalty triggered volumes to ABWG 99999, which has 0% Crown interest.

For further information, please contact your respective Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

Statutory Requirement and Recalculation of 2009 Royalty

A production year becomes statute barred on December 31st, four years after the end of a production year. Once a year has become statute barred, calculation or recalculation of royalty

does not occur on a monthly basis. Section 38 of the Mines and Minerals Act provides for recalculation of royalty that can be initiated in two ways:

1. On the department's initiative in conjunction with an audit or examination; or
2. At the request of a royalty payer.

Audits in Progress

Non-operator partners are informed that certain 2009 Allowable Costs, Capital Costs, Custom Processing Fees, Custom Processing Adjustment Factor (CPAF), and other reporting discrepancy audits are in progress. It is anticipated that these audits will be completed before December 31, 2013. However, should circumstances warrant a completion of these audits in 2014, a list of the affected Alberta Energy Regulator (AER) facilities will be included in the December 2013 Information Bulletin. Royalty clients are also reminded that amendments received by the department in the fourth year following the production year may be subject to audit. If the amendments are received late in the fourth year and insufficient time is available for the department to commence a review of the amendments prior to the end of the year, the department reserves the right to commence the audit at the beginning of the fifth year.

If you have any questions, please contact Kris Pretty, Manager, Compliance & Assurance, Calgary, at (403) 297-8785.

Industry Recalculation of 2009 Royalty

Industry initiated royalty recalculation requests for the 2009 production year must be submitted in writing to the attention of Olga Marocco, Acting Manager, Volumetric & Cost Reporting, Gas Royalty Operations. This request must be received by the department on, or before, December 31, 2013 and it must include the following:

- Identification of the recalculation facility or facilities
- A list of the royalty variables proposed for recalculation
- The reason for the recalculation
- The production year of the recalculation
- An order of magnitude estimate (i.e. >\$100,000, >\$1 Million, >\$2 Million, etc.) of the recalculation requested
- Identification of all royalty clients that may be impacted by the request (this is necessary, especially in situations where volumes may be cascaded to another client who is expected to respond to the cascade)
- Confirmation from the operator that the affected partner(s) have been notified
- A sample copy of the submission pertaining to a particular production month in paper or electronic format (e.g., excel)

If the request meets the department's terms and conditions for recalculation, it will be approved. A request made during the fourth year following the production year must be completed before the end of the fifth year, with a reasonable time for a review by the department before the end of the fifth year.

If you have any questions regarding this process, please contact your Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

F. POINTS OF CONTACT

Quick Reference

Petrinex	Petrinexsupport@Petrinex.ca
V&CR	VCR1@gov.ab.ca
	VCR2@gov.ab.ca
	VCR3@gov.ab.ca
Gas Royalty Accounts	GasRoyaltyAccounts.Energy@gov.ab.ca
Royalty Features	GasRoyaltyPrograms@gov.ab.ca

Petrinex (formerly Petroleum Registry of Alberta)

The focal point for communications regarding preparations for, access to, or utilization of Petrinex is the Petrinex Service Desk.

Contact Information:

Phone: 403-297-6111 or 1-800-992-1144

Fax: 403-297-3665

Email: Petrinexsupport@Petrinex.ca

Website: www.Petrinex.ca

Volumetric & Cost Reporting

Volumetric & Cost Reporting is structured as a Business Associate client portfolio system, which assigns a given Business Associate to one of three teams. Listed below is the portfolio

breakdown along with the Volumetric & Cost Reporting Team Leads and phone numbers. The portfolios are divided by company name and not by BA ID.

Example: If your company name is the "Gas Company" you would call the
C – G team at 780-644-1202

Business Associate	Phone Number and E-mail Address	Team Lead
Numbered companies, A, B, H-P	780-644-1201 VCR1@gov.ab.ca	Joyce Chen
C – G	780-644-1202 VCR2@gov.ab.ca	Nicole LeBlanc
Q – Z	780-644-1203 VCR3@gov.ab.ca	Jyoti Bhambhani

Gas Royalty Reception: 780-422-8727

Fax: 780-427-3334 or 780-422-8732

Alberta Toll Free: 780-310-0000

Hours of operation are 8:15 a.m. to 4:30 p.m. Voice messages left after 4:30 p.m. will be answered the next business day.

In situations where a company has just amalgamated or purchased another company, the general rule is to call the team that is responsible for the "Supra" business associate, or Royalty payer. Below are some guidelines for clients who are unsure which Volumetric and Cost Reporting Team to call regarding their questions.

1. **Amalgamation/consolidation** - Call the team responsible for the "Supra" business associate (Royalty Payer).

- i.e. ABC Oil and Gas amalgamates with Zed Exploration and Zed is the amalgamator (royalty payer). When calling Volumetric and Cost Reporting regarding business for ABC Oil and Gas, you would call Team 3 (Q-Z) (780-644-1203) because Zed Exploration is now the Supra business associate and royalty payer. This rule would apply even if you were calling regarding business that is prior to the acquisition or amalgamation.
2. **Asset Purchase** - Call the team responsible for your company.
i.e. 123 Gas purchases the assets of TSP Exploration, but not the company. When calling Volumetric and Cost Reporting regarding business for 123 Gas, you would call Team 1 (# Co., A, B, & H-P) (780-644-1201) because you have only purchased assets.
3. **Consultants/service providers** - If you have a contract to provide production accounting services to a company, call the team responsible for your client's company.
i.e. Paul Snow Consulting Services enters into a contract with Duckback Oil and Gas and Olive Oil and Gas. Paul Snow would contact Team 2 (C-G) (780-644-1202) to discuss Duckback Oil business and Team 1 (# Co., A, B, & H-P) (780-644-1201) to discuss Olive Oil and Gas business. At the time the contract is signed, Paul Snow would have had each company notify the appropriate team that he was authorized for their company.

Management Information

Effective March 1, 2013, all royalty deposit inquiries are to be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Royalty Accounting

All inquiries or requests that relate to royalty accounting (e.g. Transfers, Refunds, Interest, Statement of Account, Collections and Royalty Deposits) should be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Royalty Features

All inquiries or requests that relate to royalty programs (e.g. Natural Gas Deep Drilling Program, New Well Royalty Rates and Otherwise Flared Solution Gas Royalty Waiver Program) should be forwarded to the Royalty Features team at GasRoyaltyPrograms@gov.ab.ca.

Alberta Energy Internet

Prices, Royalty Rates and Transportation Information are available on the Alberta Energy Internet address: www.energy.alberta.ca, from "Our Business", navigate to "Natural Gas", "About Natural Gas", "Prices", "Alberta Natural Gas Reference Price (ARP)". In addition, both the Gas Royalty Information Bulletins and Information Letters are also available under "Our Business", navigate to "Natural Gas", "Legislation, Guidelines & Policies".

Reference Prices and Valuation Allowances Calculation Information

Pricing & Analysis
300, 801 – 6 Avenue SW
Calgary, Alberta T2P 3W2
Telephone: 403-297-5514
Fax: 403-297-5400



Richard Stokl
Director, Gas Royalty Operations
Royalty Operations

APPENDIX 1

Natural Gas Liquids (NGLs) Reference Prices Review (excluding Ethane)

Business Rules for Royalty Valuation of Natural Gas Liquids (excluding Ethane)

1. Reference prices are used to value the Crown's royalty share of NGL production for propane (C3), butanes (c4) and pentanes-plus (C5+), either separate (Spec) or in an NGL mix. Reference prices are intended to represent (a proxy for) what an average producer would receive (royalty valuation principle of producer proceeds) in an arms' length sale of their marketable NGL production at field facilities (gas plant, gathering system or battery), where Crown royalty volumes are determined.
2. There will be a single provincial reference price, which is a provincial average price at field facilities, for each of C3 Spec, C4 Spec, C5+ Spec, C3 Mix, C4 Mix and C5+ Mix.
3. Provincial NGL Reference Prices will be based entirely on purchase information submitted to Alberta Energy by buyers of NGLs at field facilities located in Alberta. Alberta Energy will require as many NGL buyers to report, as is practical.
4. It is intended that buyer reported prices include all price components (including quality adjustments) related to the purchase of the production at the field facility, which in most cases would tie into the invoice between the buyer and the producer.
5. NGL buyers are required to report all their arms' length purchases at field facilities. Buy/Sells and exchanges will not be reported because a price cannot be determined.

Prior Period Amendments

1. To ensure published NGL reference prices are representative of market prices received by producers in a production month, NGL reference prices will be restated and royalty invoices will be recalculated where effects of prior period amendments are material. Effects of prior period amendments are considered material if the 'As Amended NGL RP' exceeds +/- 1% of the previously prescribed NGL reference price. Effects of prior period amendments that fall below the threshold are not consider material and will **not** be included in any NGL reference prices.
2. An NGL buyer is required to submit amendments to an original month's purchase information report when the original report differs from their current business records for the production month. Differences may result from submission errors or from business adjustments that are transacted in future business months.
3. To effectively and efficiently manage RP restatements and invoice recalculation, there will be an annual close off process. For example, calendar year 2010 would be closed off

August 15th, 2013 (June 2013 Invoice) with potential extension to August 15th 2014. The time lag will allow for completion of the audit and correction process for buyer reports.

4. RP restatements and re-invoicing will occur as part of the close off process. RP restatements and re-invoicing would not occur during the months leading up to close off unless otherwise determined by the Minister.
5. Restatements of RPs will also result in restatements of Par Prices, where applicable.

March 13, 2013

APPENDIX 2

Natural Gas Liquids Purchasers

BP Canada Energy Group ULC
Canada Imperial Oil Ltd.
Canadian Enterprise Gas Products Ltd.
Canadian Natural Resources Ltd.
Chevron Canada Resources
City Service Valcon
ConocoPhillips Canada
Dow Chemical Canada Ltd.
Elbow River Marketing Limited Partnership
Exxonmobil Canada Energy
Flint Hill Resources Canada LP
Gestion Energie
Gibson Gas Liquids Partnership
Husky Energy Marketing Inc.
Imperial Oil Resources
Keyera Corp
Kiros Energy Marketing ULC
Nexen Marketing
Pembina NGL Corporation
Pembina Pipeline Corporation
Petrogas Marketing Ltd.
PetroLama Energy Canada Inc.
Plains Midstream Canada
Shell Canada Limited
Spectra Energy Transmission
Suncor Marketing Energy Inc.
Superior Gas Liquids
Talisman Energy Inc.
Targa Resources
Tidal Energy Marketing Inc.